

1 Documents represented that Countrywide's underwriting of mortgages was
2 designed to ensure the borrower's ability to repay the mortgage and the adequacy
3 of the collateral supporting the mortgage, in reality Countrywide's underwriting
4 practices were actually designed to originate as many mortgage loans as possible
5 without regard to the ability of borrowers to afford such mortgages. Indeed,
6 contrary to the representations in the Registration Statements and Prospectus
7 Supplements, it has now been revealed that Countrywide's loan originators
8 systemically disregarded and/or manipulated the income, assets and employment
9 status of borrowers seeking mortgage loans in order to qualify these borrowers for
10 mortgages that were then pooled and used as collateral for the MBS sold to
11 Plaintiffs. In many instances, this was done by inflating borrowers' stated income,
12 or facilitating income inflation by encouraging ineligible borrowers to resort to "no
13 documentation loans" and "stated income loans." In other cases, Countrywide
14 customers were steered to more expensive, higher interest loans, such as subprime
15 and "alternative" mortgages, which they would not likely be able to repay, because
16 making such loans allowed Countrywide to increase the number of attractive
17 mortgages it could sell to the secondary mortgage markets. As set forth below,
18 Countrywide's notorious origination practices were pervasive throughout the
19 United States and throughout the time period during which the Offerings were
20 issued.

21 112. On June 4, 2009, the SEC filed a complaint against Mozilo,
22 Countrywide's former Chief Executive Officer, and against two Defendants in this
23 case, Sambol and Sieracki (the "SEC Complaint"). The SEC Complaint alleges
24 that the defendants in that case made material false statements in Countrywide's
25 SEC filings and in other forums about the quality of Countrywide's residential
26 mortgage loans and about the underwriting process for those loans. According to
27 the SEC, the underwriting process for Countrywide loans was far less rigorous than
28 what the defendants in that case had stated and, consequently, the quality of

1 Countrywide's loans was much poorer than was indicated by those public
2 statements.

3 113. The allegations in the SEC Complaint that Countrywide and its
4 officers substantially overstated the quality of the company's residential mortgage
5 loan underwriting and, as a result, issued mortgage loans of a far worse quality
6 than Countrywide publicly disclosed are materially similar to the allegations made
7 by Plaintiffs in this case. Although the statements targeted by the SEC were made
8 to Countrywide's shareholders in SEC filings, statements made in Offering
9 Documents for securities that securitized the mortgage collateral were similarly
10 false and misleading to MBS investors.

11 114. Based on discussions with one of the attorneys of record involved in
12 the filing of the SEC Complaint, the basis for the allegations in the SEC Complaint
13 was an extensive investigation done by the SEC and its investigators into
14 Countrywide's fraudulent lending practices, namely during the period of 2005-
15 2007, prior to drafting the complaint and commencing the lawsuit. The SEC's
16 investigation spanned several months and testimony was taken from various
17 confidential sources, many of which were former Countrywide employees.
18 Counsel for the SEC stated that the SEC had a good faith belief that each and every
19 allegation set forth in the Complaint was true and corroborated, and does not
20 believe that there is any chance of a Rule 11 violation by the SEC with respect to
21 the allegations in the complaint.

22 115. The SEC Complaint alleges, among other things:

- 23
- 24 • Countrywide embarked on a strategy of underwriting a
25 higher number of exception loans. The SEC alleges that
26 “[t]he elevated number of exceptions resulted largely
27 from Countrywide's use of exceptions as part of its
28 matching strategy to introduce new guidelines and
product changes.” SEC Complaint, ¶29. By February
2007, internal risk management “noted that the
production divisions continued to advocate for, and

operated pursuant to, an approach based upon the matching strategy alone. ... Additionally, [a senior risk management employee warned [Sambol] that, 'I doubt this approach would play well with regulators, investors, rating agencies etc. *To some, this approach might seem like we've simply ceded our risk standards and balance sheet to whoever has the most liberal guidelines.*'"] SEC Complaint, ¶44 (emphasis added).

- Countrywide's risk management reported to the credit risk committee on June 28, 2005, that there was "evidence of borrowers misrepresenting their income and occupation on reduced documentation loan applications." SEC Complaint, ¶37.
 - By June 2006 "both Mozilo and Sambol were aware ... that a significant percentage of borrowers who were taking out stated income loans were engaged in mortgage fraud." SEC Complaint, ¶40. For example, "[o]n June 2, 2006, Sambol received an email reporting on the results of a quality control audit at Countrywide Bank that showed that 50% of the stated income loans audited by the bank showed a variance in income from the borrowers' IRS filings of greater than 10%. Of those, 69% had an income variance of greater than 50%." *Id.*
 - Angelo Mozilo, Countrywide's CEO, noted in an April 13, 2006 email "that he had 'personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deterioration in the quality of loans originated versus the pricing of those loan [sic].'" SEC Complaint, ¶49.
 - A December 13, 2007 internal Countrywide memorandum reveals, "'Countrywide had reviewed limited samples of first- and second-trust-deed mortgages originated by Countrywide Bank during the fourth quarter of 2006 and the first quarter of 2007 in order to get a sense of the quality of file documentation and underwriting practices, and to assess compliance with internal policies and procedures. The review resulted in ... the finding that borrower repayment capacity was not adequately assessed by the bank during the underwriting

process for home equity loans. More specifically, debt-to-income (DTI) ratios did not consider the impact of principal [negative] amortization or any increase in interest.”” SEC Complaint, ¶56.

- A senior risk management employee warned defendant Sambol on May 22, 2005 “of the likelihood of significantly higher default rates in loans made on an exception basis: “[t]he main issue is to make sure everyone’s aware that we will see higher default rates.”” SEC Complaint, ¶54. According to the SEC Complaint, the senior risk management employee explained to Sambol “that exceptions are generally done at terms more aggressive than our guidelines,’ and continued that ‘[g]iven the expansion in guidelines and the growing likelihood that the real estate market will cool, this seems like an appropriate juncture to revisit our approach to exceptions.’ [The senior risk management employee further] warned [Sambol] that increased defaults would cause repurchase and indemnification requests to rise and the performance of Countrywide-issued MBS to deteriorate.” *Id.*

116. On November 3, 2009 U.S. District Judge John Walter denied in their entirety defendants’ motions to dismiss the SEC Complaint, holding, among other things, that the SEC had adequately alleged that defendants in that case had made statements that materially exaggerated the quality of Countrywide’s residential mortgage-backed loans.

117. There was apparently no dispute in the SEC litigation that defendants in that case, like Defendants here, had repeatedly made statements asserting that Countrywide’s residential mortgage loans were of high quality. The defendants did not dispute that they had made the statements that the SEC said they had made – many of these statements were in SEC filings that the defendants had indisputably filed or caused to be filed. Defendants did, however, ask the court to take judicial notice of numerous other SEC filings containing additional information relating to Countrywide’s loans, a request that was granted. Notably,

1 defendants used the judicially noticed documents they had brought to the court's
2 attention to "argue that the majority of the misstatements and omissions were not
3 material or misleading as a matter of law in light of Countrywide's extensive
4 disclosures and the context of the alleged misstatements or omissions." *SEC v.*
5 *Mozilo*, CV 09-3994-JFW (MANx), 2009 U.S. Dist. LEXIS 104689, at *25-26
6 (C.D. Cal. Nov. 3, 2009).

7 118. Judge Walter flatly rejected this argument, explaining that "neither
8 Countrywide's disclosures nor a careful review of the context of the statements
9 convince this Court that the alleged omissions or misstatements were immaterial or
10 not misleading as a matter of law. Accordingly, the Court concludes that the SEC
11 on the whole has adequately alleged that Defendants have made false or
12 misleading statements or omissions of material fact." *Id.* at *26.

13 119. In addition, numerous attorneys general have initiated investigations
14 into Countrywide's lending practices and also have alleged that Countrywide
15 systematically departed from the underwriting standards it professed to use to
16 originate residential loans.

17 120. The Illinois Attorney General initiated a lawsuit against Countrywide
18 and Mozilo, contending that the company and its executives sold borrowers costly
19 and defective loans that quickly went into foreclosure. *See People of the State of*
20 *Illinois v. Countrywide Fin. Corp.*, No. 08CH22994 (Cook County Ch. Ct.) (the
21 "First Illinois AG Complaint").

22 121. Based on discussions with one of the attorneys of record involved in
23 the filing of the First Illinois AG Complaint, the basis for the allegations in the
24 First Illinois AG Complaint was an extensive investigation done by the Illinois
25 AG's Office and its investigators into Countrywide's fraudulent lending practices,
26 namely during the period of 2005-2007, prior to drafting the complaint and
27 commencing the lawsuit. The Illinois AG Office's investigation spanned several
28 months and testimony was taken from various confidential sources, many of which

1 were former Countrywide employees. Counsel in the Illinois AG Office stated that
2 they had a good faith belief that each and every allegation set forth in their
3 complaint was true and corroborated, and does not believe that there is any chance
4 of a Rule 11 violation by the Illinois AG with respect to the allegations in the
5 complaint.

6 122. The First Illinois AG Complaint alleges, based on evidence from
7 Countrywide employees whom the Illinois Attorney General interviewed, that
8 Countrywide employees were incentivized to increase the number of loan
9 originations without concern for whether the borrower was able to repay the loan.
10 Countrywide employees did not properly ascertain whether a potential borrower
11 could afford the offered loan, and many of Countrywide's stated income loans
12 were based on inflated estimates of borrowers' income. For example, according to
13 the First Illinois AG Complaint: (1) a Countrywide employee estimated that
14 approximately 90% of all reduced documentation loans sold out of a Chicago
15 office had inflated incomes; and (2) one of Countrywide's mortgage brokers, One
16 Source Mortgage Inc., routinely doubled the amount of the potential borrower's
17 income on stated income mortgage applications. Furthermore, to supplement an
18 employee's judgment as to whether a potential borrower's income was
19 "reasonable," Countrywide required its employees to utilize a website,
20 www.salary.com. Even if the stated salary was outside of the range provided by
21 the website, Countrywide employees could still approve the loan. The Illinois
22 Attorney General alleged that the "reasonableness" test contravened proper
23 underwriting practices.

24 123. As the Illinois Attorney General explained, "[t]his mounting disaster
25 has had an impact on individual homeowners statewide and is having an impact on
26 the global economy." *The New York Times* reported that the complaint, derived
27 from 111,000 pages of Countrywide documents and interviews with former
28 employees, "paints a picture of a lending machine that was more concerned with

1 volume of loans than quality.” See Gretchen Morgenson, “Illinois to Sue
2 Countrywide,” *N.Y. Times* (June 25, 2008).

3 124. In a second complaint filed on June 29, 2010, the Illinois Attorney
4 General further enumerated the problems with Countrywide’s origination practices,
5 including that Countrywide engaged in discriminatory and predatory lending. See
6 *People of the State of Illinois v. Countrywide Fin. Corp.*, No. 10CH27929 (Cook
7 County Ch. Ct.) (the “Second Illinois AG Complaint”). There, the Illinois
8 Attorney General sets forth how CFC incentivized its employees to sell riskier
9 subprime loans with higher spreads, paying its brokers more for those riskier loans
10 than for originating prime loans.

11 125. Based on discussions with one of the attorneys of record involved in
12 the filing of the Second Illinois AG Complaint, the basis for the allegations in the
13 Second Illinois AG Complaint was an extensive investigation done by the Illinois
14 AG’s Office and its investigators into Countrywide’s fraudulent lending practices,
15 namely during the period of 2005-2007, prior to drafting the complaint and
16 commencing the lawsuit. The Illinois AG Office’s investigation spanned several
17 months and testimony was taken from various confidential sources, many of which
18 were former Countrywide employees. Counsel in the Illinois AG Office stated that
19 they had a good faith belief that each and every allegation set forth in their
20 complaint was true and corroborated, and does not believe that there is any chance
21 of a Rule 11 violation by the Illinois AG with respect to the allegations in the
22 complaint.

23 126. California’s Attorney General also commenced an investigation into
24 Countrywide’s lending activities and filed a complaint in the Northwest District of
25 the Superior Court for Los Angeles County, entitled *People of the State of*
26 *California v. Countrywide Fin. Corp.*, No. LC081846 (Los Angeles Super. Ct.)
27 (the “California AG Complaint”). The California AG Complaint also alleged that
28 Countrywide routinely departed from its stated underwriting standards.

1 127. Based on discussions with one of the attorneys of record involved in
2 the filing of the California AG Complaint, the basis for the allegations in the
3 California AG Complaint was an extensive investigation done by the California
4 AG's Office and its investigators into Countrywide's fraudulent lending practices,
5 namely during the period of 2005-2007, prior to drafting the complaint and
6 commencing the lawsuit. The California AG Office's investigation spanned several
7 months and testimony was taken from various confidential sources, many of which
8 were former Countrywide employees. Counsel in the California AG Office stated
9 that they had a good faith belief that each and every allegation set forth in their
10 complaint was true and corroborated, and does not believe that there is any chance
11 of a Rule 11 violation by the California AG with respect to the allegations in the
12 complaint.

13 128. For example, the California AG Complaint alleged that employees
14 were incentivized to make exceptions to underwriting standards and failed to verify
15 borrower documentation and information. According to the California AG
16 Complaint, Countrywide used a system called CLUES (Countrywide Loan
17 Underwriting Expert System), to provide a loan analysis report that indicated
18 whether the loan was within Countrywide's underwriting guidelines. CLUES
19 reports indicating a loan was not originated within the purview of Countrywide's
20 underwriting guidelines often were ignored in order to effectuate the loan.

21 129. Further, consistent with the allegations of the Illinois Attorney
22 General, California Countrywide employees cited in the California AG Complaint
23 also claimed to have utilized the website www.salary.com to purportedly confirm a
24 borrower's stated income. However, according to the California AG Complaint,
25 California employees would know ahead of time the range of salaries that
26 www.salary.com would provide for a particular job and, therefore, know by how
27 much they could overstate a borrower's income. A former California loan officer
28 for Countrywide further explained that its loan officers typically told potential

1 borrowers that “with your credit score of X, for this house, and to make X
2 payment, X is the income that you need to make”; after which the borrower would
3 state that he or she made X amount of income.

4 130. Likewise, the Connecticut Attorney General filed a complaint in
5 Superior Court, Judicial District of Hartford, entitled *State of Connecticut v.*
6 *Countrywide Fin. Corp.*, No. CV08-40390945 (Hartford Super. Ct.) (“Connecticut
7 AG Complaint”), alleging that Countrywide’s employees inflated borrowers’
8 incomes in order to qualify them for loans they otherwise would not have received.

9 131. Based on discussions with one of the attorneys of record involved in
10 the filing of the Connecticut AG Complaint, the basis for the allegations in the
11 Connecticut AG Complaint was an extensive investigation done by the
12 Connecticut AG’s Office and its investigators into Countrywide’s origination and
13 lending practices, namely during the period of 2005-2007, prior to drafting the
14 complaint and commencing the lawsuit. The Connecticut AG Office’s
15 investigation spanned several months and interviews were conducted with various
16 sources, including borrowers who obtained loans from Countrywide. Counsel in
17 the Connecticut AG Office stated that they had a good faith belief that each and
18 every allegation set forth in their complaint was true and correct, and does not
19 believe that there is any chance of a Rule 11 violation by the Connecticut AG with
20 respect to the allegations in the complaint. Soon after the complaint was filed
21 Countrywide settled the claims with the Connecticut AG.

22 132. Investigations in other states such as Washington, West Virginia,
23 Indiana and Florida contain many of the same types of allegations in the Illinois,
24 California and Connecticut complaints.

25 133. On October 6, 2008, certain of the Countrywide Defendants settled
26 lawsuits brought by eleven attorneys general for approximately **\$8.4 billion**.

1 **D. Allegations in Numerous Civil Lawsuits Involving Countrywide
2 Show the Falsity of the Offering Documents**

3 134. On February 15, 2008, Countrywide shareholders filed a consolidated
4 complaint in the U.S. District Court for the Central District of California alleging
5 derivative claims against the officers and directors of Countrywide, in an action
6 styled *In re Countrywide Fin. Corp. Derivative Litig.*, No. 07-CV-06923-MRP-
7 (MANx) (C.D. Cal.) (the “Derivative Complaint”). The derivative litigation was
8 subsequently dismissed because of the plaintiffs’ lack of standing

9 135. Based on discussions with one of the attorneys of record involved in
10 the filing of the Derivative Complaint, the basis for the allegations in the
11 Derivative Complaint was an extensive investigation done by Plaintiffs’ Counsel in
12 the Derivative Action its investigators into Countrywide’s fraudulent lending
13 practices, namely during the period of 2005-2007. The investigation spanned
14 several months and interviews were conducted with various confidential sources,
15 many of which were former Countrywide employees. Counsel for the Derivative
16 Plaintiffs stated that they had a good faith belief that each and every allegation set
17 forth in their complaint was true and corroborated, and does not believe that there
18 is any chance of a Rule 11 violation with respect to the allegations in the
19 complaint.

20 136. The Derivative Complaint cited information obtained from several
21 confidential sources who were former Countrywide employees who stated that the
22 vast majority of Countrywide’s loans were underwritten in contravention of the
23 company’s stated underwriting standards. According to one of the confidential
24 sources in that complaint, a former “Underwriter II” (a Countrywide employment
25 classification) based in a Jacksonville, Florida processing center between June
26 2006 and April 2007, because of a campaign by Countrywide to increase the
27 volume of loan originations, as much as 80% of the loans originated by
28 Countrywide in that office involved significant variations from Countrywide’s
 normal underwriting standards.

1 137. According to another confidential witness cited in the Derivative
2 Complaint, a Senior Underwriter in Roseville, California, from September 2002 to
3 September 2006, Countrywide would regularly label loans as “prime” even if made
4 to unqualified borrowers (including those who had recently gone through a
5 bankruptcy and were still having credit problems). According to that confidential
6 witness, Countrywide’s lending practices became riskier in 2006 and Countrywide
7 more lax in enforcing its underwriting policies.

8 138. Another confidential witness cited in the Derivative Complaint, an
9 Executive Vice President of Production Operations and later an Executive Vice
10 President of Process Improvement who worked at Countrywide for 17 years before
11 leaving in October 2005, disclosed that Countrywide created a computer system
12 (or “rules engine”) that routed highly risky loans out of the normal loan approval
13 process to a central underwriting group for evaluation. The system was called the
14 Exception Processing System. According to that source, the Exception Processing
15 System identified loans that violated Countrywide’s underwriting requirements.
16 However, according to the same source, loans identified by the Exception
17 Processing System as violating underwriting standards were *not* rejected. Rather,
18 Countrywide executives wanted the company’s Central Underwriting group to
19 review such loans to evaluate whether these loans should require a higher price
20 (upfront points) or a higher interest rate in light of the violation at issue. Central
21 Underwriting entered information into the Exception Processing System about its
22 decisions to approve such loans and charge additional fees to the borrower.

23 139. Yet another confidential source in the Derivative Complaint, an
24 underwriter from Long Island, New York at Countrywide between March 2000
25 and January 2007, stated that Countrywide extended loans to individuals with
26 increasing debt-to-income ratios. Initially, Countrywide limited debt-to-income
27 ratios to 38%, but this rose to 50%. According to this source, Countrywide branch
28 managers’ compensation was tied to loan origination volume and not the quality of

1 the loans. Thus, according to this source, branch managers pushed originators to
2 sell more loans despite the riskiness of these loans. Additional confidential sources
3 in the Derivative Complaint confirmed this.

4 140. Indeed, according to yet another confidential source in the Derivative
5 Complaint, Countrywide simply “didn’t turn down loans.” Rather, Countrywide
6 “did whatever they had to do to close loans’ including making exceptions to
7 underwriting guidelines – everyone was motivated to increase loan volume and
8 ‘approv[e] things that should not have been approved.””

9 141. On September 30, 2008, MBIA Insurance Corp. (“MBIA”), one of the
10 largest providers of bond insurance, filed a complaint against Countrywide in New
11 York state court, entitled *MBIA Ins. Corp. v. Countrywide*, No. 08/602825 (N.Y.
12 Sup. Ct.) (the “MBIA Complaint”). The MBIA Complaint alleges that
13 Countrywide fraudulently induced MBIA to provide insurance for certain
14 investment certificates, including those contained in the following trusts: CWHEQ
15 2005-E; CWHEQ 2005-I; CWHEQ 2005-M; CWHEQ 2006-E; CWHEQ 2006-G;
16 CWHEQ 2006-S8; CWHEQ 2007-E; CWHEQ 2007-S1; CWHEQ 2007-S2; and
17 CWHEQ 2007-S3.

18 142. Based on discussions with one of the attorneys of record involved in
19 the filing of the MBIA Complaint, the basis for the allegations in the MBIA
20 Complaint was an extensive investigation done by Plaintiffs’ Counsel in the MBIA
21 Action into Countrywide’s fraudulent lending practices, namely during the period
22 of 2005-2007. The investigation spanned several months and an intensive analysis
23 was performed on files obtained by MBIA which served as the basis for the
24 allegations in the complaint. Counsel for the MBIA Plaintiff stated that they had a
25 good faith belief that each and every allegation set forth in their complaint was true
26 and corroborated, and does not believe that there is any chance of a Rule 11
27 violation with respect to the allegations in the complaint.

28 143. MBIA was able to obtain approximately 19,000 loan files for the

1 Certificates it insured as a result of its contractual agreements with Countrywide.
2 After reviewing the portfolios and re-underwriting each loan provided by
3 Countrywide, MBIA discovered that there was “*an extraordinarily high incidence*
4 *of material deviations from the underwriting guidelines Countrywide represented*
5 *it would follow.*” MBIA Complaint, ¶78 (emphasis added). MBIA discovered that
6 many of the loan applications “lack[ed] key documentation, such as a verification
7 of borrower assets or income; include[d] an invalid or incomplete appraisal;
8 demonstrate[d] fraud by the borrower on the face of the application; or reflect[ed]
9 that any of borrower income, FICO score, or debt, or DTI [debt-to-income] or
10 CLTV, fail[ed] to meet stated Countrywide guidelines (without any permissible
11 exception).” MBIA Complaint, ¶79. Significantly, “MBIA’s re-underwriting
12 review ... revealed that almost 90% of defaulted or delinquent loans in the
13 Countrywide Securitizations show material discrepancies.” On April 27, 2010, the
14 Supreme Court of the State of New York, although determining that MBIA did not
15 have a legal claim for negligent misrepresentation, denied a motion to dismiss
16 MBIA’s claims of fraud against several Countrywide entities and Bank of
17 America.

18 144. Furthermore, in an action commenced against Countrywide for
19 wrongful termination, styled *Zachary v. Countrywide Fin. Corp.*, No. 4:08-cv-
20 00214, currently pending in the U.S. District Court for the Southern District of
21 Texas, the plaintiff, Mark Zachary (“Zachary”), a Regional Vice President of
22 Countrywide KB Home Loans, Inc. (“CWKB”), alleged that CWKB, a 50-50 joint
23 venture between Countrywide and KB Home Loans (“KB Home”), engaged in a
24 host of mortgage origination and underwriting activities that did not comport with
25 stated and standard practices. Zachary described how loan officers would go so far
26 as to help the loan applicant submit a loan application with false income amounts,
27 so that the applicant would get the loan under false pretenses.

28 145. Based on discussions with one of the attorneys of record involved in

1 the filing of the Zachary Complaint, the basis for the allegations in the Zachary
2 Complaint was an extensive investigation done by Plaintiff's Counsel in the
3 Zachary Action and Plaintiff's first-hand account of wrongdoing by Countrywide
4 in or around 2005-2007. Counsel for the Zachary Plaintiff stated that they had a
5 good faith belief that each and every allegation set forth in their complaint was true
6 and corroborated, and does not believe that there is any chance of a Rule 11
7 violation with respect to the allegations in the complaint.

8 146. According to Zachary, one of these practices involved CWKB's
9 practice of "flipping" a loan application from a "full documentation" loan program
10 to a "stated income" or "no income, no asset" loan program. He learned that loans
11 were being canceled at the prime regional operations center as full documentation
12 loans and transferred to the subprime operations center in Plano, Texas, as stated
13 asset, stated income ("SISA") loans, a "low-doc" loan, or no income, no assets
14 ("NINA") loans, a "no-doc" loan. Otherwise known as "liar loans," NINA loans
15 allowed a borrower to simply state their income without providing any
16 documentation or proof of this income. Thus, rather than denying an applicant
17 based on the information revealed in the original mortgage application,
18 Countrywide pretended that it did not see the disqualifying information, such as
19 insufficient income or assets, and instead, allowed applicants to apply for a no
20 documentation loan, implicitly encouraging them to lie on these renewed
21 applications.

22 147. Furthermore, Zachary explained that while a material number of
23 Countrywide's loan applicants were not eligible for any loan program requiring
24 documentation based on the applicant's verified income level and/or job status,
25 CWKB loan officers would (1) cancel the application for the loan program that
26 required documentation, (2) re-do the application as a SISA or a NINA loan
27 through the company's subprime originators in Plano, Texas, and (3) coach the
28 loan applicant as to what income level he or she would need to have in order to

1 qualify for the low-doc or no-doc loan.

2 148. Moreover, according to Zachary, Countrywide blatantly ignored its
3 underwriting policies and procedures. Zachary stated that there was a problem
4 with appraisals performed on homes being purchased with Countrywide loans.
5 According to Zachary, the appraiser was being strongly encouraged to inflate
6 appraisal values by as much as 6% to allow the homeowner to “roll up” all closing
7 costs. According to Zachary, this inflated value put the buyer “upside down” on
8 the home immediately after purchasing it, *i.e.*, the borrower owed more than the
9 home’s worth. Thus, the borrower was more susceptible to default. It also put the
10 lender and secondary market investor at risk because they were unaware of the true
11 value of their asset. According to Zachary, Countrywide performed an audit into
12 these matters in January 2007 which corroborates his story.

13

14 **E. Underwriter Defendants “Contracted Out” and Failed to Conduct**
15 **Required Due Diligence of Loan Underwriting Guidelines**
16 **Contained in Offering Documents**

17 149. Prior to securitization, a process of cursory “due diligence” on the
18 mortgage loans was conducted. The review’s ostensible purpose was to determine
19 whether the loans contained the requisite legal documentation, were based on an
20 independent appraisal and were originated in accordance with Countrywide’s loan
21 underwriting guidelines, which were detailed in the Offering Documents. The due
22 diligence review that was conducted on the mortgage collateral was not specific to
23 any securitized pool of mortgage loans. Rather, the due diligence was periodically
24 performed on a small sample of Countrywide’s entire “warehouse” of mortgage
25 loans.

26 150. The Underwriter Defendants contracted out the inspection of loans for
27 compliance with the Originator’s underwriting guidelines to outside firms –
28 Clayton and The Bohan Group (“Bohan”) – and then conducted limited oversight
of these subcontractors’ activities.

1 151. As disclosed as part of an ongoing investigation of investment
2 banking misconduct in underwriting MBS being conducted by, among others, the
3 New York Attorney General (the “NYAG”) and the Massachusetts Attorney
4 General, Clayton and Bohan routinely provided investment banks with detailed
5 reports of loans non-compliant with underwriting guidelines, but the investment
6 banks just as routinely disregarded the non-compliant loans and included them in
7 securitization pools anyway. Further, the President of Bohan stated that, by the
8 time the Offerings of the Certificates took place, investment banks were requiring a
9 review of only 5% to 7% of the entire loan pools.

10 152. The Underwriter Defendants contracted their due diligence work to
11 Clayton and Bohan. The outside firms were supposed to examine the loans for
12 conformity with Countrywide’s guidelines, as detailed in the Offering Documents.
13 Each loan reviewed was rated as category “1,” “2” or “3.” Category “3” loans
14 were defective and recommended for exclusion from securitization, however such
15 loans were routinely included in securitizations despite being defective. Because
16 the risk of default was passed on to investors in the Certificates rather than held by
17 the Underwriter Defendants or Countrywide, there was no incentive to remove
18 such category “3” loans from the Offerings, because if the Underwriter Defendants
19 rejected any significant portion of the loans, the size of the securitization, and thus
20 the size of the fees derived from the securitization, would decrease significantly.

21 153. In June 2007, the NYAG subpoenaed documents from Clayton and
22 Bohan related to their due diligence efforts on behalf of the investment banks, such
23 as Bear Stearns, that underwrote mortgage-backed securities. The NYAG, along
24 with Massachusetts and Connecticut attorneys general and the SEC (all of which
25 also subpoenaed documents), are investigating whether investment banks held
26 back information they should have provided in the disclosure documents related to
27 the sale of mortgage-backed securities to investors.

28 154. In a December 6, 2007 article published in *The New York Times*, it

1 was reported that:

2 Andrew Cuomo, the New York attorney-general, has
3 subpoenaed RBS and about 15 of Wall Street's biggest
4 sub-prime mortgage bond underwriters, such as Bear
5 Stearns and Merrill Lynch, requesting information that
6 will help to determine how much due diligence was
conducted on the home loan-backed securities that they
issued.

7 * * *

8 Mr. Cuomo is also examining the relationship between
9 mortgage lenders, third party-due diligence firms, the
10 credit rating agencies and the underwriting banks to see if
they colluded to ignore risks.

11 Wall Street firms made hefty fees from buying high-risk
12 sub-prime mortgages and packaging them into bonds
13 backed by the home loans' interest payments. Investors,
14 including Wall Street giants such as Citigroup, as well as
15 hedge funds and pension funds, have collectively lost
16 more than \$50 billion this year on sub-prime-backed
bonds after a surge in defaults on high-risk home loans
forced down their valuations.

17 Many of Wall Street's underwriters relied heavily on
18 third-party vendors to examine the home loans that were
19 used to back the mortgage bonds. This helped them to
20 determine how reliable an income stream the underlying
mortgages would produce and, in turn, how likely it was
21 that the bonds' interest payments would be met.

22 Since bond underwriters have an obligation to make sure
23 that the statements made in the securities' Offering
Documents are accurate, Mr. Cuomo is investigating how
24 much, if any, due diligence they conducted themselves.
He is also seeking to determine whether they should have
done more.

25
26
27 155. In a January 12, 2008 article titled "Inquiry Focuses on Withholding
28 of Data on Loans," *The New York Times* further reported:

1 An investigation into the mortgage crisis by New York
2 State prosecutors is now focusing on whether Wall Street
3 banks withheld crucial information about the risks posed
4 by investments linked to subprime loans.

5 Reports commissioned by the banks raised red flags
6 about high-risk loans known as exceptions, which failed
7 to meet even the lax credit standards of subprime
8 mortgage companies and the Wall Street firms. But the
9 banks did not disclose the details of these reports to
10 credit-rating agencies or investors.

11 The inquiry, which was opened last summer by New
12 York's attorney general, Andrew M. Cuomo, centers on
13 how the banks bundled billions of dollars of exception
14 loans and other subprime debt into complex mortgage
15 investments, according to people with knowledge of the
16 matter. Charges could be filed in coming weeks.

17 * * *

18 The inquiries highlight Wall Street's leading role in
19 igniting the mortgage boom that has imploded with a
20 burst of defaults and foreclosures. The crisis is sending
21 shock waves through the financial world, and several big
22 banks are expected to disclose additional losses on
23 mortgage-related investments when they report earnings
24 next week.

25 As plunging home prices prompt talk of a recession, state
26 prosecutors have zeroed in on the way investment banks
27 handled exception loans. In recent years, lenders, with
28 Wall Street's blessing, routinely waived their own credit
guidelines, and the exceptions often became the rule.

It is unclear how much of the \$1 trillion subprime
mortgage market is composed of exception loans. Some
industry officials say such loans made up a quarter to a
half of the portfolios they saw. In some cases, the loans
accounted for as much as 80 percent. While exception
loans are more likely to default than ordinary subprime
loans, it is difficult to know how many of these loans
have soured because banks disclose little information
about them, officials say.

1 Wall Street banks bought many of the exception loans
2 from subprime lenders, mixed them with other mortgages
3 and pooled the resulting debt into securities for sale to
investors around the world.

4 * * *

5 Mr. Cuomo, who declined to comment through a
spokesman, subpoenaed several Wall Street banks last
6 summer, including Lehman Brothers and Deutsche Bank,
7 which are big underwriters of mortgage securities; the
8 three major credit-rating companies: Moody's Investors
9 Service, Standard & Poor's and Fitch Ratings; and a
10 number of mortgage consultants, known as due diligence
11 firms, which vetted the loans, among them Clayton
12 Holdings in Connecticut and the Bohan Group, based in
13 San Francisco. Mr. Blumenthal said his office issued up
14 to 30 subpoenas in its investigation, which began in late
August.

15 * * *

16 To vet mortgages, Wall Street underwriters hired outside
due diligence firms to scrutinize loan documents for
17 exceptions, errors and violations of lending laws. But
18 Jay H. Meadows, the chief executive of Rapid Reporting,
19 a firm based in Fort Worth that verifies borrowers'
incomes for mortgage companies, said ***lenders and
investment banks routinely ignored concerns raised by
these consultants.***

20
21 “Common sense was sacrificed on the altar of
materialism,” Mr. Meadows said. “We stopped
22 checking.”

23 (emphasis added).

24
25 156. On January 27, 2008, Clayton revealed that it had entered into an
agreement with the NYAG for immunity from civil and criminal prosecution in the
26 State of New York in exchange for agreeing to provide additional documents and
27 testimony regarding its due diligence reports, including copies of the actual reports
28

1 provided to its clients. Both *The New York Times* (J. Anderson and V. Bajaj,
2 “Reviewer of Subprime Loans Agrees to Aid Inquiry of Banks,” *N.Y. Times*, (Jan.
3 27, 2008)) and *The Wall Street Journal* (A. Efrati and R. Simon, “Due Diligence
4 Firm to Aid New York Subprime Probe,” *Wall St. J.* (Jan. 29, 2008)) ran articles
5 describing the nature of the NYAG’s investigation and Clayton’s testimony. *The
6 Wall Street Journal* reported that the NYAG’s investigation was focused on “the
7 broad language written in prospectuses about the risky nature of these securities,”
8 which “changed little in recent years, even as due diligence reports noted that the
9 number of exception loans backing the securities was rising.” According to the
10 *New York Times* article, Clayton told the NYAG “that starting in 2005, it saw a
11 significant deterioration of lending standards and a parallel jump in lending
12 expectations” and “some investment banks directed Clayton to halve the sample of
13 loans it evaluated in each portfolio.”

14 157. A March 23, 2008 *Los Angeles Times* article reported that Clayton and
15 Bohan employees “raised plenty of red flags about flaws [in subprime home loans]
16 so serious that mortgages should have been rejected outright – such as borrowers’
17 incomes that seemed inflated or documents that looked fake – but the problems
18 were glossed over, ignored or stricken from reports” as follows:

19 The reviewers’ role was just one of several safeguards –
20 including home appraisals, lending standards and ratings
21 on mortgage-backed bonds – that were built into the
country’s mortgage-financing system.

22 But in the chain of brokers, lenders and investment banks
23 that transformed mortgages into securities sold
worldwide, no one seemed to care about loans that
24 looked bad from the start. Yet profit abounded until
25 defaults spawned hundreds of billions of dollars in losses
on mortgage-backed securities.

26
27 “The investors were paying us big money to filter this
28 business,” said loan checker Cesar Valenz. “It’s like

1 with water. If you don't filter it, it's dangerous. And it
2 didn't get filtered."

3 As foreclosures mount and home prices skid, the loan-
4 review function, known as "due diligence," is gaining
attention.

5 The FBI is conducting more than a dozen investigations
6 into whether companies along the financing chain
7 concealed problems with mortgages. And a presidential
8 working group has blamed the subprime debacle in part
on a lack of due diligence by investment banks, rating
9 outfits and mortgage-bond buyers.

10 E. Scott Reckard, "Subprime Watchdogs Ignored," *L.A. Times* (Mar. 23, 2008).

11 **F. Additional Government Investigations Further Confirm Systemic
12 Disregard for Mortgage Loan Underwriting Guidelines**

13 158. In August 2007, following reports of defaults in mortgage loans
14 underlying various MBS, downgrades of such MBS and potential downgrades of
15 additional MBS in the future, and the resulting illiquidity in the credit markets, the
16 President of the United States commissioned the Secretary of the Treasury, the
17 SEC and the Commodities Futures Trading Commission ("CFTC") (hereinafter
18 referred to as the "President's Working Group" or the "PWG") to investigate the
19 causes of the market turmoil. After a seven-month investigation, the PWG issued
20 its report on March 13, 2008. The PWG found as follows:

- 21 • A significant erosion of market discipline by those
22 involved in the securitization process, including
23 *originators, underwriters, credit rating agencies, and*
24 *global investors*, related in part to failures to provide or
obtain adequate risk disclosures;
- 25 • The turmoil in financial markets clearly was triggered by
26 a *dramatic weakening of underwriting standards for*
27 *U.S. subprime mortgages...*

28 (emphasis added).

1 159. In December 2007, the Massachusetts Attorney General launched an
2 investigation into Wall Street's securitization of subprime loans. The investigation
3 focused on the industry practices involved in the issuance and securitization of
4 subprime loans to Massachusetts consumers. According to a press release issued
5 by the Massachusetts Attorney General's Office,

6 The Office is investigating whether securitizers may have:
7

- 8 • facilitated the origination of "unfair" loans under
9 Massachusetts law;
- 10 • failed to ascertain whether loans purchased from
11 originators complied with the originators' stated
12 underwriting guidelines;
- 13 • failed to take sufficient steps to avoid placing problem
14 loans in securitization pools;
- 15 • been aware of allegedly unfair or problem loans;
- 16 • failed to make available to potential investors certain
17 information concerning allegedly unfair or problem
18 loans, including information obtained during loan
19 diligence and the pre-securitization process, as well as
20 information concerning their practices in making
21 repurchase claims relating to loans both in and out of
22 securitizations.

23 160. On January 30, 2008, the FBI and SEC launched a joint investigation
24 into 14 investment banks, loan providers and developers as part of a crackdown
25 focusing on the subprime mortgage crisis. According to the *Los Angeles Times*:

26 We're looking at the whole range of those involved – including the
27 investment banks and other entities that bundled the loans up for sale
28 and the institutions that held them and reported [to investors] on their
29 value...

30 **G. Underwriter Defendants Employed Rating Shopping Practices to
31 Ensure Inflated Investment Grade Ratings for All the Certificates**

32 161. The Underwriter Defendants derived their profits from the sale of the
33 Certificates for a price in excess of the amount paid for the underlying mortgage
34 Certificates.

1 loans. For the Certificates to sell profitably, approximately 80% of the
2 securitization had to be assigned the highest AAA rating by the Rating Agencies.

3 162. As set forth above, the Underwriter Defendants ultimately engaged
4 the Rating Agencies through a “ratings shopping” process. Initially, a collateral
5 analyst would send the preliminarily structured deal to the Rating Agencies for
6 feedback. The Underwriter Defendants’ in-house rating agency personnel would
7 oversee the communications with the Rating Agencies. Then S&P, for example,
8 would run the loan tape through both its LEVELS and SPIRE Models again and
9 provide the Underwriter Defendants with the results in an effort to obtain the
10 ratings engagement. Through the LEVELS Model, S&P would advise the
11 Underwriter Defendants responsible for each deal, for example, that 94.25% of the
12 Certificates would be rated AAA as long as 5.75% of the total collateral balance
13 supporting those Certificates was subordinate. This 5.75% was the amount of loss
14 coverage required. The Underwriter Defendants would then again “negotiate” with
15 the Rating Agencies before they were hired, in order to get them to agree to the
16 least amount of loss coverage and credit enhancement, and the highest percentage
17 of AAA-designated Certificates.

18 163. The Underwriter Defendants used this “ratings shopping” process to
19 obtain the most profitable structure on the Offerings. Ratings shopping resulted in
20 **100%** of the Certificates at issue being initially awarded the AAA/maximum-
21 security rating.

22 164. Finally however, in 2008, the practice was effectively ended by way
23 of an agreement entered into between the Rating Agencies and the NYAG. In June
24 2008, the NYAG announced that after an investigation of the Rating Agencies, it
25 had reached an agreement with S&P, Moody’s and Fitch which contemplated a
26 complete overhaul of the then-current ratings procedures and guidelines and put an
27 end to what had been termed “ratings shopping.” Instead of investment banks
28 looking to issue mortgage-backed bonds going to all three agencies for a review,

1 but only using, and paying for, the most optimistic rating, the Rating Agencies
2 would now be paid upfront regardless of whether they were hired to assign a
3 rating, a move expected to remove any potential for conflicts of interest.

4

5 **VIII. THE OFFERING DOCUMENTS CONTAINED MATERIAL**
6 **MISSTATEMENTS AND OMISSIONS REGARDING STATED**
7 **UNDERWRITING AND APPRAISAL STANDARDS**

8 165. Countrywide was a principal originator for all nine of the SAC
9 Offerings for which the Certificates complained of herein were issued in
10 connection with. The total value of the nine tranches in the SAC Offerings for
11 which Countrywide was the principal originator was \$2.6 billion, of which the
12 Rating Agencies assigned initial ratings of AAA/maximum safety to 100%.

13 166. Each Registration Statement at issue herein for the Issuing Trusts
14 contained an illustrative form of a Prospectus Supplement for use in the offering of
15 the Certificates. Each Registration Statement was prepared by the Issuer
16 Defendants and signed by the Individual Defendants. At the effective date of the
17 offering of the Certificates, a final Prospectus Supplement was filed with the SEC
18 containing a description of the mortgage pool underlying the Certificates and the
19 underwriting standards by which the mortgages were originated. The Underwriter
20 Defendants sold the Certificates pursuant to the Prospectus Supplements.

21 167. Countrywide made clear in the Offering Documents that exceptions
22 were made to the underwriting guidelines but only where “compensating factors
23 were demonstrated by the borrowers. Each Registration Statement filed by
24 CWALT and CWMBS at issue herein, as well as the Prospectus Supplements
25 issued pursuant to those Registration Statements, contained the following language
26 concerning the underwriting standards by which the mortgages pooled into
27 CWALT and CWMBS Offerings were originated:

1 All of the Mortgage Loans have been originated or
2 acquired by Countrywide Home Loans, Inc., in
3 accordance with its credit, appraisal and underwriting
4 standards.... Countrywide Home Loans' underwriting
5 standards are applied in accordance with applicable
6 federal and state laws and regulations.

7 Countrywide Home Loans' underwriting standards are
8 applied, by or on behalf of Countrywide Home Loans to
9 evaluate the prospective borrower's credit standing and
10 repayment ability and the value and adequacy of the
11 mortgaged property as collateral. Under those standards,
12 a prospective borrower must generally demonstrate that
13 the ratio of the borrower's monthly housing expenses
14 (including principal and interest on the proposed
15 mortgage loan and, as applicable, the related monthly
16 portion of property taxes, hazard insurance and mortgage
17 insurance) to the borrower's monthly gross income and
18 the ratio of total monthly debt to the monthly gross
19 income (the "debt-to-income" ratios) are within
20 acceptable limits. The maximum acceptable debt-to-
21 income ratio, which is determined on a loan-by-loan
basis, varies depending on a number of underwriting
criteria, including the Loan-to-Value Ratio, loan purpose,
loan amount and credit history of the borrower. In
addition to meeting the debt-to-income ratio guidelines,
each prospective borrower is required to have sufficient
cash resources to pay the down payment and closing
costs. *Exceptions to Countrywide Home Loans'*
underwriting guidelines may be made if compensating
factors are demonstrated by a prospective borrower.

22 ***See TAC Appendix Exhibit K; see also Exhibit L.***

23 168. The above statements concerning Countrywide's adherence to its
24 underwriting standards and to federal and state underwriting standards, with
25 respect to mortgages pooled into CWALT and CWMBS Issuing Trusts, contained
26 material misstatements when made because:

1 a. Defendants failed to disclose that Countrywide systematically
2 ignored underwriting standards imposed by state and federal law in issuing
3 the mortgages pooled into the Issuing Trusts;

4 b. Countrywide did not, contrary to its statement above, properly
5 “evaluate the prospective borrower’s credit standing and repayment ability
6 and the value and adequacy of the mortgaged property as collateral.”
7 Rather, as alleged herein, Countrywide systematically ignored borrowers’
8 repayment ability and the value and adequacy of mortgaged property used as
9 collateral in issuing loans; and

10 c. Countrywide’s underwriting standards did not require that a
11 borrower “generally demonstrate that the ratio of the borrower’s monthly
12 housing expenses (including principal and interest on the proposed mortgage
13 loan and, as applicable, the related monthly portion of property taxes, hazard
14 insurance and mortgage insurance) to the borrower’s monthly gross income
15 and the ratio of total monthly debt to the monthly gross income (the ‘debt-
16 to-income’ ratios) are within acceptable limits.” Instead, Countrywide’s
17 underwriting included the following practices, described *supra* at ¶¶97-164,
18 that disregarded a borrowers’ ability to pay by:

- 19 • Coaching borrowers to misstate their income on loan
20 applications to qualify for mortgage loans under
21 Countrywide’s underwriting standards, including
22 directing applicants to no-documentation loan programs
23 when their income was insufficient to qualify for full
documentation loan programs;
- 24 • Steering borrowers to more expensive loans that
25 exceeded their borrowing capacity;
- 26 • Encouraging borrowers to borrow more than they could
27 afford by suggesting NINA and SISA loans when they
28 could not qualify for full documentation loans based on
their actual incomes;

- 1 • Approving borrowers based on “teaser rates” for loans
2 despite knowing that the borrower would not be able to
3 afford the “fully indexed-rate” when the adjustable rate
4 adjusted;
- 5 • Allowing non-qualifying borrowers to be approved for
6 loans under exceptions to Countrywide’s underwriting
7 standards based on so-called “compensating factors”
8 without requiring documentation for such compensating
9 factors;
- 10 • Incentivizing its employees to approve borrowers under
11 exceptions to Countrywide’s underwriting policies; and
- 12 • Systematically overriding flags identified by the CLUES
13 system that was meant to weed out non-qualifying loans
14 and nonetheless approving such loans.

169. Each Registration Statement and Prospectus Supplement issued by
170 CWABS and CWHEQ at issue herein contained the following language
171 concerning the underwriting standards by which the mortgages pooled into the
172 Issuing Trusts were originated:

173 Credit Blemished Mortgage Loans. The following is a
174 description of the underwriting procedures customarily
175 employed by Countrywide Home Loans with respect to
176 credit blemished mortgage loans.... Countrywide Home
177 Loans produces its credit blemished mortgage loans
178 through its Consumer Markets, Full Spectrum Lending,
179 Correspondent Lending and Wholesale Lending
180 Divisions. Prior to the funding of any credit blemished
181 mortgage loan, Countrywide Home Loans underwrites
182 the related mortgage loan in accordance with the
183 underwriting standards established by Countrywide
184 Home Loans. In general, the mortgage loans are
185 underwritten centrally by a specialized group of
186 underwriters who are familiar with the unique
187 characteristics of credit blemished mortgage loans. In
188 general, Countrywide Home Loans does not purchase
189 any credit blemished mortgage loan that it has not itself
190 underwritten.

1 Countrywide Home Loans' underwriting standards are
2 primarily intended to evaluate the value and adequacy of
3 the mortgaged property as collateral for the proposed
4 mortgage loan and the borrower's credit standing and
5 repayment ability. On a case by case basis, Countrywide
6 Home Loans may determine that, based upon
7 compensating factors, a prospective borrower not strictly
8 qualifying under the underwriting risk category
9 guidelines described below warrants an underwriting
10 exception. *Compensating factors may include low loan-to-value ratio, low debt-to-income ratio, stable employment, time in the same residence or other factors. It is expected that a significant number of the Mortgage Loans will have been originated based on such underwriting exceptions.*

11 Each prospective borrower completes an application
12 which includes information with respect to the
13 applicant's assets, liabilities income and employment
14 history, as well as certain other personal information.
15 Countrywide Home Loans requires an independent credit
16 bureau report on the credit history of each applicant in
17 order to evaluate the applicant's prior willingness and/or
18 ability to repay. The report typically contains information
19 relating to credit history with local and national
20 merchants and lenders, installment debt payments and
21 any record of defaults, bankruptcy, repossession, suits or
22 judgments, among other matters. After obtaining all
23 applicable employment, credit and property information,
24 Countrywide Home Loans uses a debt-to-income ratio to
25 assist in determining whether the prospective borrower
26 has sufficient monthly income available to support the
27 payments of principal and interest on the mortgage loan
28 in addition to other monthly credit obligations. The
“debt-to-income ratio” is the ratio of the borrower’s total
monthly credit obligations to the borrower’s gross
monthly income. The maximum monthly debt-to-income
ratio varies depending upon a borrower’s credit grade
and documentation level (as described below) but does
not generally exceed 50%. Variations in the monthly
debt-to-income ratios limit are permitted based on
compensating factors.

1 While more flexible, Countrywide Home Loans' underwriting guidelines still place primary reliance on a
2 borrower's ability to repay; however, Countrywide Home
3 Loans may require lower loan-to-value ratios than for
4 loans underwritten to more traditional standards.
5 Borrowers who qualify generally have payment histories and debt-to-income ratios which would not satisfy more
6 traditional underwriting guidelines and may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies.
7 Countrywide Home Loans' credit blemished mortgage
8 loan underwriting guidelines establish the maximum permitted loan-to-value ratio for each loan type based upon these and other risk factors with more risk factors resulting in lower loan-to-value ratios.
9
10

11 ***See TAC Appendix Exhibit M; see also Exhibit N.***

12 170. In addition, the Prospectus Supplements issued pursuant to the
13 CWHEQ Registration Statements at issue herein also contained additional
14 language describing the standards by which CWHEQ's home equity loans and
15 second lien mortgage loans were originated:
16

17 The underwriting process is intended to assess the applicant's credit standing and repayment ability, and the
18 value and adequacy of the real property security as collateral for the proposed loan. Exceptions to the
19 applicable originator's underwriting guidelines will be made when compensating actors are present. These
20 factors include the borrower's employment stability, favorable credit history, equity in the related property,
21 and the nature of the underlying first mortgage loan.
22
23

24 ***See TAC Appendix Exhibit O.***

25 171. The Prospectus Supplements for the Offerings issued pursuant to the
26 CWHEQ Registration Statements at issue herein also stated:
27
28

After obtaining all applicable income, liability, asset, employment, credit, and property information, the

1 applicable originator generally uses a debt-to-income
2 ratio to assist in determining whether the prospective
3 borrower has sufficient monthly income available to
4 support the payments on the home equity loan in addition
5 to any senior mortgage loan payments (including any
6 escrows for property taxes and hazard insurance
7 premiums) and other monthly credit obligations. The
8 “debt-to-income ratio” is the ratio of the borrower’s total
9 monthly credit obligations (assuming the mortgage loan
10 interest rate is based on the applicable fully indexed
11 interest rate) to the borrower’s gross monthly income.
12 Based on this, the maximum monthly debt-to-income
13 ratio is 45%. Variations in the monthly debt-to-income
14 ratios limits are permitted based on compensating factors.
15 The originators currently offer home equity loan products
16 that allow maximum combined loan-to-value ratios up to
17 100%.

18 ***See TAC Appendix Exhibit P.***

19 172. The above statements contained material misstatements of fact when
20 made because:

21 a. Contrary to the statements that Countrywide’s underwriting
22 standards were “primarily intended to evaluate the value and adequacy of
23 the mortgaged property as collateral for the proposed mortgage loan” and to
24 evaluate “the borrower’s credit standing and repayment ability,”
25 Countrywide subordinated its underwriting standards to originating and
26 securitizing as many mortgage loans as it could so that it could garner fees
27 in the secondary mortgage market. As alleged herein, Countrywide
28 systematically ignored borrowers’ repayment ability and the value and
adequacy of mortgaged property used as collateral in issuing loans. Rather,
Countrywide designed its underwriting standards to ensure that it received
the highest possible fees for originating loans without regard to the actual
ability of its borrowers to repay the loan, or whether the mortgaged property
had sufficient value to collateralize the loan.

1 b. Contrary to the representation above that “After obtaining all
2 applicable employment, credit and property information, Countrywide
3 Home Loans uses a debt-to-income ratio to assist in determining whether the
4 prospective borrower has sufficient monthly income available to support the
5 payments of principal and interest on the mortgage loan in addition to other
6 monthly credit obligations,” Countrywide’s underwriting included the
7 following practices, described *supra* at ¶¶97-164, that disregarded a
8 borrowers’ ability to pay by:

- 9 • Coaching borrowers to misstate their income on loan
10 applications to qualify for mortgage loans under
11 Countrywide’s underwriting standards, including
12 directing applicants to no-documentation loan programs
13 when their income was insufficient to qualify for full
14 documentation loan programs;
- 15 • Steering borrowers to more expensive loans that
16 exceeded their borrowing capacity;
- 17 • Encouraging borrowers to borrow more than they could
18 afford by suggesting NINA and SISA loans when they
19 could not qualify for full documentation loans based on
20 their actual incomes;
- 21 • Approving borrowers based on “teaser rates” for loans
22 despite knowing that the borrower would not be able to
23 afford the “fully indexed rate” when the adjustable rate
24 adjusted;
- 25 • Allowing non-qualifying borrowers to be approved for
26 loans under exceptions to Countrywide’s underwriting
27 standards based on so-called “compensating factors”
28 without requiring documentation for such compensating
factors;
- 29 • Incentivizing its employees to approve borrowers under
30 exceptions to Countrywide’s underwriting policies; and

- 1 • Systematically overriding flags identified by the CLUES
2 system that were meant to weed out non-qualifying loans
3 and, despite the flags, approving such loans.

4 c. Contrary to the statement that “Exceptions to the applicable
5 originator’s underwriting guidelines will be made when compensating
6 factors are present” and that those factors included “the borrower’s
7 employment stability, favorable credit history, equity in the related property,
8 and the nature of the underlying first mortgage loan,” Countrywide adopted
9 procedures to incentivize its employees to approve exceptions to loans
10 regardless of whether any compensating factors were present.

11 173. Each Registration Statement issued by CWALT, CWABS, CWMBS
12 and CWHEQ at issue herein contained the following statement regarding
13 Countrywide’s assessment of a prospective borrower:

14 Once all applicable employment, credit and property
15 information is received, a determination generally is
16 made as to whether the prospective borrower has
17 sufficient monthly income available to meet monthly
18 housing expenses and other financial obligations and
19 monthly living expenses and to meet the borrower’s
20 monthly obligations on the proposed mortgage loan
21 (generally determined on the basis of the monthly
22 payments due in the year of origination) and other
23 expenses related to the mortgaged property such as
24 property taxes and hazard insurance). *The underwriting
standards applied by sellers, particularly with respect to
the level of loan documentation and the mortgagor’s
income and credit history, may be varied in appropriate
cases where factors as low Loan-to-Value Ratios or
other favorable credit factors exist.*

25
26 See TAC Appendix Exhibit Q.

27 174. Each Registration Statement issued by CWALT, CWABS, CWMBS
28 and CWHEQ at issue herein contained the following statement regarding

1 Countrywide's review of information provided by a prospective borrower:

2
3 Under the Stated Income/Stated Asset Documentation
4 Program, the mortgage loan application is *reviewed to*
5 *determine that the stated income is reasonable for the*
6 *borrower's employment and that the stated assets are*
7 *consistent with the borrower's income.*

8 **See TAC Appendix Exhibit R.**

9 175. According to the Registration Statement and Prospectus Supplements
10 issued by CWALT at issue herein, Countrywide originated loans pursuant to a
11 Preferred Processing Program, pursuant to which documentation requirements
12 were waived for those applicants with favorable credit histories and higher FICO
scores.

13
14 Under Countrywide Home Loans' underwriting
15 guidelines, borrowers possessing higher FICO Credit
16 Scores, *which indicate a more favorable credit history*,
17 and who give Countrywide Home Loans the right to
18 obtain the tax returns they filed for the preceding two
19 years may be eligible for Countrywide Home Loans'
20 processing program (the "Preferred Processing
Program").Countrywide Home Loans may waive
some documentation requirements for mortgage loans
originated under the Preferred Processing Program.

21 **See TAC Appendix Exhibit S; see also Exhibit T.**

22 176. Furthermore, under the CWALT Registration Statement at issue
23 herein, Countrywide also offered four programs where less than full borrower
24 documentation of income, assets and employment were required, however, in all
25 instances credit scores had to be obtained and any deficiencies or derogations fully
26 explained to the loan officers and, except for the Streamlined Documentation
27 Program which had limited application, independent appraisals of the mortgage
28 properties obtained – with all appraisals conforming to Fannie Mae and Freddie
Mac standards:

A prospective borrower may be eligible for a loan approval process that limits or eliminates Countrywide Home Loans' standard disclosure or verification requirements or both. Countrywide Home Loans offers the following documentation programs as alternatives to its Full Documentation Program: an Alternative Documentation Loan Program (the "Alternative Documentation Program"), a Reduced Documentation Loan Program (the "Reduced Documentation Program"), a CLUES Plus Documentation Loan Program (the "CLUES Plus Documentation Program"), a No Income/No Asset Documentation Loan Program (the "No Income/No Asset Documentation Program"), a Stated Income/Stated Asset Documentation Loan Program (the "Stated Income/Stated Asset Documentation Program") and a Streamlined Documentation Loan Program (the "Streamlined Documentation Program").

For all mortgage loans originated or acquired by Countrywide Home Loans, Countrywide Home Loan obtains a credit report relating to the applicant from a credit reporting company. The credit report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcy, dispossession, suits or judgments. All adverse information in the credit report is required to be explained by the prospective borrower to the satisfaction of the lending officer.

Except with respect to mortgage loans originated pursuant to its Streamlined Documentation Program, Countrywide Home Loans obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans. The appraisers inspect and appraise the proposed mortgaged property and verify that the property is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market data analysis based on recent sales of comparable homes in the area and, when deemed appropriate, a replacement cost

1 *analysis based on the current cost of constructing a*
2 *similar home. All appraisals are required to conform to*
3 *Fannie Mae or Freddie Mac appraisal standards then*
4 *in effect.*

5 *See TAC Appendix Exhibit U; see also Exhibit V.*

6 177. In addition, the Offering Documents for the CWALT Offerings at
7 issue herein stated that the Alternative Documentation Program required, in
8 addition to FICO scores and standard appraisals, W-2 forms instead of tax returns
9 for two years and bank statements instead of deposits and employment verification:

10 The Alternative Documentation Program permits a
11 borrower to provide W-2 forms instead of tax returns
12 covering the most recent two years, permits bank
13 statements in lieu of verification of deposits and permits
14 alternative methods of employment verification.

15 *See SAC Appendix Exhibit W; see also Exhibit X.*

16 178. The Reduced Documentation Program, according to the CWALT
17 Offering Documents at issue herein, was only applied where maximum LTV was
18 equal to or less than 75% including secondary financing as follows:

19 Under the Reduced Documentation Program, some
20 underwriting documentation concerning income,
21 employment and asset verification is waived.
22 Countrywide Home Loans obtains from a prospective
23 borrower either a verification of deposit or bank
24 statements for the two-month period immediately before
25 the date of the mortgage loan application or verbal
26 verification of employment. Since information relating to
27 a prospective borrower's income and employment is not
28 verified, the borrower's debt-to-income ratios are
 calculated based on the information provided by the
 borrower in the mortgage loan application. The
 maximum Loan-to-Value Ratio, including secondary
 financing, ranges up to 75%.

See TAC Appendix Exhibit Y; see also Exhibit Z.

 179. Furthermore, the CLUES Plus program also had a 75% LTV limit but

1 required borrower bank statements and excluded cash out refinancing:

2
3 The CLUES Plus Documentation Program permits the
4 verification of employment by alternative means, if
5 necessary, including verbal verification of employment
6 or reviewing paycheck stubs covering the pay period
7 immediately prior to the date of the mortgage loan
8 application. To verify the borrower's assets and the
9 sufficiency of the borrower's funds for closing,
10 Countrywide Home Loans obtains deposit or bank
11 account statements from each prospective borrower for
12 the month immediately prior to the date of the mortgage
13 loan application. Under the CLUES Plus Documentation
14 Program, the maximum Loan-to-Value Ratio is 75% and
15 property values may be based on appraisals comprising
16 only interior and exterior inspections. Cash-out
17 refinances and investor properties are not permitted under
18 the CLUES Plus Documentation Program.

19 ***See TAC Appendix Exhibit AA; see also Exhibit BB.***

20 180. Finally, pursuant to the CWALT Offering Documents at issue herein,
21 the Streamlined Documentation Program offered refinancing for non-delinquent
22 borrowers who had originated their loans with Countrywide, but this program was
23 limited:
24

25 The Streamlined Documentation Program is available for
26 borrowers who are refinancing an existing mortgage loan
27 that was originated or acquired by Countrywide Home
28 Loans provided that, among other things, the mortgage
loan has not been more than 30 days delinquent in
payment during the previous twelve-month period. Under
the Streamlined Documentation Program, appraisals are
obtained only if the loan amount of the loan being
refinanced had a Loan-to-Value Ratio at the time of
origination in excess of 80% or if the loan amount of the
new loan being originated is greater than \$650,000. In
addition, under the Streamlined Documentation Program,
a credit report is obtained but only a limited credit review
is conducted, no income or asset verification is required,

1 and telephonic verification of employment is permitted.
2 The maximum Loan-to-Value Ratio under the
3 Streamlined Documentation Program ranges up to 95%.

4 ***See TAC Appendix Exhibit CC; see also Exhibit DD.***

5 181. These statements contained material misstatements and omissions of
6 fact when made because, contrary to its published statement that “a determination
7 generally is made as to whether the prospective borrower has sufficient monthly
8 income available to meet monthly housing expenses and other financial obligations
9 and monthly living expenses and to meet the borrower’s monthly obligations on
10 the proposed mortgage loan,” Countrywide implemented policies designed to
11 extend mortgages to borrowers regardless of whether they were able to meet their
obligations under the mortgage, described *supra* at ¶¶97-164, such as:

- 13 • Coaching borrowers to misstate their income on loan
14 applications to qualify for mortgage loans under
15 Countrywide’s underwriting standards, including
16 directing applicants to no-documentation loan programs
when their income was insufficient to qualify for full
documentation loan programs;
- 17 • Steering borrowers to more expensive loans that
18 exceeded their borrowing capacity;
- 19 • Encouraging borrowers to borrow more than they could
20 afford by suggesting NINA and SISA loans when they
21 could not qualify for full documentation loans based on
their actual incomes;
- 22 • Approving borrowers based on “teaser rates” for loans
23 despite knowing that the borrower would not be able to
afford the “fully indexed-rate” when the adjustable rate
adjusted;
- 26 • Allowing non-qualifying borrowers to be approved for
27 loans under exceptions to Countrywide’s underwriting
standards based on so-called “compensating factors”
without requiring documentation for such compensating
28 factors;

- 1 • Incentivizing its employees to approve borrowers under
2 exceptions to Countrywide's underwriting policies;
- 3 • Systematically overriding flags identified by the CLUES
4 system that were meant to weed out non-qualifying loans
5 and, despite the flags, approving such loans; and
- 6 • Failing to determine whether stated income or stated
7 assets were reasonable, failing to inform investors that
8 Countrywide employees used www.salary.com in order
9 to verify income and, often times, failing to check the
 veracity of information that was provided and easily
 verified (such as bank account balances).

10 182. Each Registration Statement and Prospectus Supplement issued by
11 CWALT and CWMBS at issue herein contained the following language
12 concerning the collateral supporting each mortgage pooled in the Issuing Trusts
13 and the appraisals by which the collateral was valued:

14
15 Except with respect to mortgage loans originated
16 pursuant to its Streamlined Documentation Program,
17 Countrywide Home Loans obtains appraisals from
18 independent appraisers or appraisal services for
19 properties that are to secure mortgage loans. The
20 appraisers inspect and appraise the proposed mortgaged
21 property and verify that the property is in acceptable
22 condition. Following each appraisal, the appraiser
23 prepares a report which includes a market data analysis
24 based on recent sales of comparable homes in the area
25 and, when deemed appropriate, a replacement cost
26 analysis based on the current cost of constructing a
27 similar home. All appraisals are required to conform to
28 Fannie Mae or Freddie Mac appraisal standards then in
 effect.

25
26 *See SAC Appendix Exhibit EE; see also Exhibit FF.*

27 183. Each Registration Statement and Prospectus Supplement issued by
28 CWABS and CWHEQ at issue herein contained the following language
 concerning the collateral supporting each mortgage pooled in the Issuing Trusts

1 and the appraisals by which the collateral was valued:
2

3 Countrywide Home Loans' underwriting standards are
4 applied in accordance with applicable federal and state
5 laws and regulations and require an independent
6 appraisal of the mortgaged property prepared on a
7 Uniform Residential Appraisal Report (Form 1004) or
8 other appraisal form as applicable to the specific
9 mortgaged property type. Each appraisal includes a
10 market data analysis based on recent sales of comparable
11 homes in the area and, where deemed appropriate,
replacement cost analysis based on the current cost of
constructing a similar home and generally is required to
have been made not earlier than 180 days prior to the
date of origination of the mortgage loan.

12 ***See TAC Appendix Exhibit GG; see also Exhibit HH.***

13 184. In general, the Prospectus Supplements issued by CWHEQ at issue
14 herein contained representations concerning the appraisals done with respect to
15 home equity and second mortgage liens. They stated with respect to home equity
16 loans:

17
18 Full appraisals are generally performed on all home
19 equity loans. These appraisals are determined on the
20 basis of an applicable originator-approved, independent
21 third-party, fee-based appraisal completed on forms
22 approved by Fannie Mae or Freddie Mac. For certain
23 home equity loans that had at origination a credit limit
24 between \$100,000 and \$250,000, determined by the
25 FICO score of the borrower, a drive-by evaluation is
26 generally completed by a state-licensed, independent
27 third party, professional appraiser on forms approved by
either Fannie Mae or Freddie Mac. The drive-by
28 evaluation is an exterior examination of the premises by
the appraiser to determine that the property is in good
condition. The appraisal is based on various factors,
including the market value of comparable homes and the
cost of replacing the improvements, and generally must

1 have been made not earlier than 180 days before the date
2 of origination of the mortgage loan. For certain home
3 equity loans with credit limits between \$100,000 and
4 \$250,000, determined by the FICO score of the borrower,
5 the applicable originator may have the related mortgaged
6 property appraised electronically. The minimum and
maximum loan amounts for home equity loans are
generally \$7,500 (or, if smaller, the state-allowed
maximum) and \$1,000,000, respectively.

7 ***See TAC Appendix Exhibit II.***

8 185. Finally, with respect to its CWALT Offerings at issue herein,
9 Countrywide also offered expanded underwriting allowing for higher LTV and
10 loan amounts though loans would still be subject to certain standards:
11

12 Mortgage loans which are underwritten pursuant to the
13 Expanded Underwriting Guidelines may have higher
14 Loan-to-Value Ratios, higher loan amounts and different
15 documentation requirements than those associated with
16 the Standard Underwriting Guidelines. The Expanded
17 Underwriting Guidelines also permit higher debt-to
income ratios than mortgage loans underwritten pursuant
to the Standard Underwriting Guidelines.

18 Countrywide Home Loans' Expanded Underwriting
19 Guidelines for conforming balance mortgage loans
20 generally allow Loan-to-Value Ratios at origination on
owner occupied properties of up to 100% on 1 unit
21 properties with principal balances up to \$333,700
(\$500,550 in Alaska and Hawaii) and 2 unit properties
with principal balances up to \$427,150 (\$640,725 in
22 Alaska and Hawaii) and up to 85% on 3 unit properties
with principal balances of up to \$516,300 (\$774,450 in
Alaska and Hawaii) and 4 unit properties with principal
23 balances of up to \$641,650 (\$962,475 in Alaska and
Hawaii). On second homes, Countrywide Home Loans'
24 Expanded Underwriting Guidelines for conforming
balance mortgage loans generally allow Loan-to-Value
Ratios at origination of up to 95% on 1 unit properties
25 with principal balances up to \$333,700 (\$500,550 in
26 Alaska and Hawaii) and up to 85% on 2 unit properties
with principal balances of up to \$427,150 (\$640,725 in
Alaska and Hawaii).

1 Alaska and Hawaii). Countrywide Home Loans'
2 Expanded Underwriting Guidelines for conforming
3 balance mortgage loans generally allow Loan-to-Value
4 Ratios at origination on investment properties of up to
5 90% unit properties with principal balances up to
6 \$333,700 (\$500,550 in Alaska and Hawaii) and 2 unit
7 properties with principal balances up to \$427,150
8 (\$640,725 in Alaska and Hawaii) and up to 85% on 3
9 unit properties with principal balances of up to \$516,300
10 (\$774,450 in Alaska and Hawaii) and 4 unit properties
11 with principal balances of up to \$641,650 (\$962,475 in
12 Alaska and Hawaii). Under its Expanded Underwriting
13 Guidelines, Countrywide Home Loans generally permits
a debt-to income ratio based on the borrower's monthly
housing expenses of up to 36% and a debt-to-income
ratio based on the borrower's total monthly debt of up to
40%; provided, however, that if the Loan-to-Value Ratio
exceeds 80%, the maximum permitted debt-to-income
ratios are 33% and 38%, respectively.

14 In connection with the Expanded Underwriting
15 Guidelines, Countrywide Home Loans originates or
16 acquires mortgage loans under the Full Documentation
17 Program, the Alternative Documentation Program, the
18 Reduced Documentation Loan Program, the No
19 Income/No Asset Documentation Program and the Stated
20 Income/Stated Asset Documentation Program. Neither
21 the No Income/No Asset Documentation Program nor the
22 Stated Income/Stated Asset Documentation Program is
23 available under the Standard Underwriting Guidelines.
24 The same documentation and verification requirements
25 apply to mortgage loans documented under the
26 Alternative Documentation Program regardless of
27 whether the loan has been underwritten under the
Expanded Underwriting Guidelines or the Standard
Underwriting Guidelines. However, under the Alternative
Documentation Program, mortgage loans that have been
underwritten pursuant to the Expanded Underwriting
Guidelines may have higher loan balances and Loan-to-
Value Ratios than those permitted under the Standard
Underwriting Guidelines

28 *See TAC Appendix Exhibit JJ.*

1 186. These statements contained material misstatements and omitted
2 necessary facts when made because they failed to disclose that the value and
3 adequacy of the mortgaged property was not appraised, on a consistent basis, using
4 “market data analysis based on recent sales of comparable homes in the area,
5 where deemed appropriate, replacement cost analysis based on the current costs of
6 constructing a similar home” or “on the basis of an applicable originator-approved,
7 independent third-party, fee-based appraisal completed on forms approved by
8 Fannie Mae or Freddie Mac.” Instead, as alleged herein, Countrywide
9 systematically inflated appraisals for properties used as collateral for mortgage
10 loans underlying the Issuing Trusts. These inflated appraisals did not conform to
11 the USPAP and were not market data analyses of comparable homes in the area or
12 analyses of the cost of construction of a comparable home.

13 187. Each Prospectus Supplement at issue herein referenced and
14 incorporated into each Registration Statement described the LTV ratio of the
15 mortgages pooled into the Issuing Trusts. The LTV ratio of mortgages in the
16 Issuing Trusts was described as equal to: (1) the principal balance of the mortgage
17 loan at the date of origination, divided by (2) the collateral value of the related
18 mortgaged property, where the “collateral value” was the lesser of either the
19 appraised value based on an appraisal made for Countrywide by an independent
20 fee appraiser at the time of the origination of the related mortgage loan, or the sales
21 price of the mortgaged property at the time of origination. Each Prospectus
22 Supplement then provided an average LTV ratio of the mortgage loans included in
23 the Issuing Trusts and a disclosure concerning the maximum LTV ratio of
24 mortgage loans included in the Issuing Trusts. *See TAC Appendix Exhibit KK.*

25 188. The statements concerning the average LTV ratio of mortgages
26 included in the Issuing Trusts and the maximum LTV ratio of mortgages included
27 in the Issuing Trusts were materially misstated when made because these ratios
28 were based on incorrect and/or inflated appraisal values assigned to the collateral

1 supporting the mortgage loans pooled into each Issuing Trust. For example, as
2 explained above, the appraisals of the properties underlying the mortgage loans
3 were inaccurate and inflated. Furthermore, stated sales prices of properties
4 underlying the mortgage loans did not accurately reflect the true values of the
5 properties. These inflated appraisals and misleading sales prices were used to
6 calculate the LTV ratios listed in the Prospectus Supplements. Incorporating an
7 inflated appraisal into the LTV ratio calculation will result in a lower LTV ratio for
8 a given loan. For instance, as described above, if a borrower seeks to borrow
9 \$90,000 to purchase a house worth \$100,000, the LTV ratio is \$90,000/\$100,000
10 or 90%. If, however, the appraised value of the house is artificially increased to
11 \$120,000, the LTV ratio drops to just 75% (\$90,000/\$120,000). Due to the
12 inflated appraisals, the LTV ratios listed in the Prospectus Supplements were
13 artificially low, making it appear that the loans underlying the trusts had greater
14 collateral and thus were less risky than they actually were.

189. The Offering Documents also stated that exceptions to underwriting
standards could be granted if the borrower's loan application reflected
"compensating factors" including "loan-to-value ratio." As detailed above,
however, the LTV ratios were deflated and inaccurate; therefore the use of this
metric as a "compensating factor" further violated the stated underwriting
standards. These statements in the Offering Documents related to Countrywide's
underwriting standards contained material misstatements and omissions because,
as described herein, Countrywide: (1) systematically disregarded its stated
underwriting standards and regularly made exceptions to its underwriting
guidelines in the absence of sufficient compensating factors. Despite assurances
that certain loans were limited to borrowers with excellent credit histories,
Countrywide routinely extended these loans to borrowers with weak credit
histories; and (2) largely disregarded appraisal standards and did not prepare
appraisals in conformity with Fannie Mae or Freddie Mac appraisal standards.

1 **IX. CLASS ACTION ALLEGATIONS**

2 190. Plaintiffs bring this action as a class action pursuant to Federal Rules
3 of Civil Procedure Rule 23(a) and (b)(3), individually, and on behalf of a class
4 consisting of all persons or entities who purchased the Certificates identified herein
5 issued pursuant and traceable to the Offering Documents defined above (the
6 "Class") and were damaged thereby. *See ¶1.*

7 191. This action is properly maintainable as a class action for the following
8 reasons:

9 192. The Class is so numerous that joinder of all members is impracticable.
10 While the exact number of Class members is unknown to Plaintiffs at this time and
11 can only be ascertained through discovery, Plaintiffs believe that there are
12 thousands of members of the proposed Class, who may be identified from records
13 maintained by the Issuer Defendants and/or may be notified of this action using the
14 form of notice customarily used in securities class actions.

15 193. Plaintiffs are committed to prosecuting this action and have retained
16 competent counsel experienced in litigation of this nature. Plaintiffs' claims are
17 typical of the claims of the other members of the Class and Plaintiffs have the same
18 interests as the other members of the Class. The tranches for each Certificate
19 Offering were issued pursuant to a single Prospectus Supplement issued by
20 Defendants pursuant to a common Shelf Registration Statement. The individual
21 tranches which made up the Offerings were interconnected by virtue of the credit
22 enhancement provisions specified in each of the Prospectus Supplements.
23 Plaintiffs have standing to bring their claims on behalf of all purchasers of each
24 class of Certificates purchased because the Class of purchasers of the Countrywide
25 Certificates suffered damages from the impairment of the entire mortgage pools
26 and the value of the tranches in each series of Certificates depended on the
27 performance of the same pools of mortgages. As such, the impairment of the
28 collateral underlying a particular Certificate Offering affected all investors in any

1 single tranche in that Offering, in addition to investors of all tranches in any
2 particular Offering. Accordingly, Plaintiffs are adequate representatives of the
3 Class and will fairly and adequately protect the interests of the Class.

4 194. The prosecution of separate actions by individual members of the
5 Class would create the risk of inconsistent or varying adjudications with respect to
6 individual members of the Class, which would establish incompatible standards of
7 conduct for Defendants, or adjudications with respect to individual members of the
8 Class which would, as a practical matter, be dispositive of the interests of the other
9 members not parties to the adjudications or substantially impair or impede their
10 ability to protect their interests.

11 195. A class action is superior to all other methods for a fair and efficient
12 adjudication of this controversy. There will be no difficulty in the management of
13 this action as a class action. Furthermore, the expense and burden of individual
14 litigation make it impossible for members of the Class to individually redress the
15 wrongs done to them.

16 196. There are questions of law and fact which are common to the Class
17 and which predominate over questions affecting any individual Class member.
18 The common questions include, *inter alia*, the following:

- 19 (a) whether Defendants violated the Securities Act;
- 20 (b) whether statements made by Defendants to the investing public in the
21 Registration Statements, Prospectuses and Prospectus Supplements both omitted
22 and misrepresented material facts about the underlying mortgages; and
- 23 (c) the extent and proper measure of the damages sustained by the
24 members of the Class.

25 **X. STANDING**

26 197. Plaintiffs have constitutional standing to advance the claims alleged
27 herein. As set forth herein at ¶¶58-78 as well as in Plaintiffs' certifications (*see*

1 ¶¶29-32), Plaintiffs purchased the Countrywide Certificates and are alleged to have
2 been damaged by Defendants, and can assert a claim directly against each
3 Defendant. Accordingly, Plaintiffs have alleged concrete and particularized
4 invasions of legally protected interests for all of the claims alleged under the
5 Securities Act.

6 **XI. CLAIMS**

7 **COUNT I**

8 **Violation of Section 11 of the Securities Act Against the Individual
Defendants, the Issuer Defendants and the Underwriter Defendants**

9
10 198. Plaintiffs repeat and reallege each and every allegation contained
11 above as if fully set forth herein only to the extent, however, that such allegations
12 do not allege fraud, scienter or the intent of the Defendants to defraud Plaintiffs or
13 members of the Class. This Count is predicated upon Defendants' strict liability
14 for material misstatements and omissions in the Offering Documents. This Count
15 is brought pursuant to Section 11 of the Securities Act, on behalf of the Class,
16 against the Individual Defendants, the Issuer Defendants, and the Underwriter
17 Defendants.

18 199. The Offering Documents for the Offerings were materially inaccurate
19 and misleading, contained untrue statements of material facts, omitted to state
20 other facts necessary to make the statements not misleading, and omitted to state
21 material facts required to be stated therein.

22 200. The Defendants named in this Count are strictly liable to Plaintiffs
23 and the Class under Section 11 of the Securities Act for the misstatements and
24 omissions contained in the Offering Documents issued in connection with the
25 following Certificates:

Issuing Trust	Plaintiff	TAC ¶
CWALT 2005-62	OPERS	61
CWALT 2005-72	OPERS	62
CWHEL 2005-H	OPERS	66
CWL 2006-S3	IPERS	67
CWL 2005-11	GBPHB	71
CWHL 2005-HYB9	OCERS	72
CWL 2006-9	GBPHB	73
CWL 2006-24	GBPHB	74
CWHL 2006-HYB3	OPERS	78

201. The Individual Defendants signed the Registration Statements for the Offerings, which were incorporated by reference into the Prospectuses and Prospectus Supplements, on behalf of the Issuer Defendants.

202. Defendant CSC, an affiliate of CFC, acted as an underwriter in the sale of the Issuing Trusts' Certificates, and helped to draft and disseminate the Offering Documents for the Certificates. Defendant CSC was an underwriter for the Issuing Trusts as shown in **TAC Appendix Exhibit E**. Defendant Bank of America is successor in interest to CSC.

203. Defendant Deutsche Bank acted as an underwriter in the sale of the Issuing Trusts' Certificates, and helped to draft and disseminate the Offering Documents for the Certificates. Defendant Deutsche Bank was an underwriter for the Issuing Trusts as shown in **TAC Appendix Exhibit E**.

204. Defendant UBS acted as an underwriter in the sale of the Issuing Trusts' Certificates, and helped to draft and disseminate the Offering Documents for the Certificates. Defendant UBS was an underwriter for the Issuing Trusts as shown in **TAC Appendix Exhibit E**.

205. Defendant Morgan Stanley acted as an underwriter in the sale of the Issuing Trusts' Certificates, and helped to draft and disseminate the Offering Documents for the Certificates. Defendant Morgan Stanley was an underwriter for the Issuing Trusts as shown in **TAC Appendix Exhibit E**.

1 206. Defendant Goldman Sachs acted as an underwriter in the sale of the
2 Issuing Trusts' Certificates, and helped to draft and disseminate the Offering
3 Documents for the Certificates. Defendant Goldman Sachs was an underwriter for
4 the Issuing Trusts as shown in **TAC Appendix Exhibit E**.

5 207. Defendant RBS acted as an underwriter in the sale of the Issuing
6 Trusts' Certificates, and helped to draft and disseminate the Offering Documents
7 for the Certificates. Defendant RBS was an underwriter for the Issuing Trusts as
8 shown in **TAC Appendix Exhibit E**.

9 208. Defendant HSBC acted as an underwriter in the sale of the Issuing
10 Trusts' Certificates, and helped to draft and disseminate the Offering Documents
11 for the Certificates. Defendant HSBC was an underwriter for the Issuing Trusts as
12 shown in **TAC Appendix Exhibit E**.

13 209. The Defendants named in this Count owed to Plaintiffs the duty to
14 make a reasonable and diligent investigation of the statements contained in the
15 Registration Statements at the time they became effective to ensure that such
16 statements were true and correct and that there was no omission of material facts
17 required to be stated in order to make the statements contained therein not
18 misleading. The Defendants knew, or in the exercise of reasonable care should
19 have known, of the material misstatements and omissions contained in or omitted
20 from the Offering Documents as set forth herein. As such, the Defendants are
21 liable to the Class.

22 210. None of the Defendants named in this Count made a reasonable
23 investigation or possessed reasonable grounds for the belief that the statements
24 contained in the Offering Documents were true or that there was no omission of
25 material facts necessary to make the statements made therein not misleading.

26 211. The Defendants named in this Count issued and disseminated, caused
27 to be issued and disseminated, and participated in the issuance and dissemination
28 of material misstatements to the investing public which were contained in the

1 Offering Documents, which misrepresented or failed to disclose, *inter alia*, the
2 facts set forth above.

3 212. By reason of the conduct herein alleged, each of the Defendants
4 named in this Count violated Section 11 of the Securities Act.

5 213. Plaintiffs acquired the Certificates pursuant and traceable to the
6 Offering Documents.

7 214. At the time they obtained their Certificates, Plaintiffs and members of
8 the Class did so without knowledge of the facts concerning the misstatements or
9 omissions alleged herein.

10 215. This claim is brought within one year after discovery of the untrue
11 statements and omissions in and from the Offering Documents which should have
12 been made through the exercise of reasonable diligence, and within three years of
13 the effective date of the Offering Documents, and are otherwise being brought in
14 accordance with the Countrywide Tolling Decision and Countrywide MTD
15 Decision.

16 216. Plaintiffs and the Class have sustained damages. The value of the
17 Certificates has declined substantially, subsequent to, and due to, the violations of
18 the Defendants named in this Count.

19 217. By virtue of the foregoing, Plaintiffs and the other members of the
20 Class are entitled to damages under Section 11, as measured by the provisions of
21 Section 11(e), jointly and severally from each of the Defendants named in this
22 Count.

23 **COUNT II**

24 **Violation of Section 12(a)(2) of the Securities Act Against the**
Section 12 Underwriter Defendants

26 218. Plaintiffs repeat and reallege each and every allegation contained
27 above as if fully set forth herein.

28 219. This Count is brought pursuant to Section 12(a)(2) of the Securities

1 Act on behalf of the Class, against the Section 12 Underwriter Defendants.

2 220. The Section 12 Underwriter Defendants promoted and sold the
3 Certificates pursuant to the defective Offering Documents. Plaintiffs and members
4 of the Class purchased Certificates directly from the Section 12 Underwriter
5 Defendants in the Offerings.

6 221. The Offering Documents contained untrue statements of material
7 facts, omitted to state other facts necessary to make the statements made not
8 misleading, and concealed and failed to disclose material facts.

9 222. The Section 12 Underwriter Defendants owed to Plaintiffs, who
10 purchased the Certificates pursuant to the Offering Documents, the duty to make a
11 reasonable and diligent investigation of the statements contained in the Offering
12 Documents, to ensure that such statements were true and that there was no
13 omission to state a material fact required to be stated in order to make the
14 statements contained therein not misleading. The Section 12 Underwriter
15 Defendants knew of, or in the exercise of reasonable care should have known of,
16 the misstatements and omissions contained in the Offering Documents as set forth
17 above.

18 223. Plaintiffs purchased the following Certificates in the Offerings and
19 directly from the Section 12 Underwriter Defendants as follows:

20 Issuing Trust	Pro. Supp. Date	Plaintiff	Purchase Date	Purchased From	TAC ¶
CWALT 2005-72	11/29/2005	OPERS	11/21/2005 12/15/2005	UBS	62
CWL 2005-H	9/28/2005	OPERS	9/27/2005	CSC	66
CWL 2006-S3	6/26/2006	IPERS	6/16/2006	CSC	67
CWL 2005-11	9/23/2005	GBPHB	9/12/2005	CSC	71
CWHL 2005- HYB9	11/29/2005	OCERS	11/28/2005	CSC	72

26 224. Plaintiffs did not know, and in the exercise of reasonable diligence
27 could not have known, of the misrepresentations and omissions contained in the
28 Offering Documents.